

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 0723-01
BILL NO.: HB 131
SUBJECT: Education - Elementary and Secondary; Taxation and Revenue - Income
TYPE: Original
DATE: March 27, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	(\$65,642) to \$3,288,583	(Unknown) to \$11,245,560	(Unknown) to \$11,689,782
Total Estimated Net Effect on <u>All</u> State Funds *	(\$65,642) to \$3,288,583	(Unknown) to \$11,245,560	(Unknown) to \$11,689,782

* Possible expenditures could exceed \$100,000.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None			
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Local Government*	(Unknown) to \$328,858,333	(Unknown) to \$1,124,556,000	(Unknown) to \$1,168,978,240

*** This proposal is permissive. Voter approval would be required before fiscal impact would be realized.**

Numbers within parentheses: () indicate costs or losses

This fiscal note contains 6 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue (DOR)** state this proposal would allow a school district, by a majority vote of its school board, to impose a surcharge of 5 or 10 percent on the income tax of the residents of the school district. This will not be effective unless the school board submits to the voters of the district (and a majority approves) a proposal to authorize the school board to impose the income tax surcharge. This proposal also states the DOR will do all functions to administer, collect, enforce, and distribute the income tax surcharge.

The DOR officials state the proposal also authorizes a sales tax on all retail sales for up to three years if the school board imposes and a majority of the people in a school district approve by vote such a measure. The DOR will also complete all necessary functions to collect, administer and disburse the sales tax proceeds. The proposal also exempts the sales tax proceeds from the school district's calculation for state aid.

The DOR assumes the total fiscal impact of the legislation is unknown. The number of FTEs required would depend on how many school districts (if any) would approve such a surcharge and if the 1 percent collection fee would cover the Department's expenses. Therefore, any FTE needed will be requested through the normal budget process based on the following information:

Personal Income Tax Bureau

One FTE would be needed for every 500,000 persons that would file a surcharge income tax return. The Bureau would have to obtain names of persons who live in the specific school district in order to enforce and administer the surcharge.

The Bureau anticipates a minimum of 5% impact to processing time. This will require (2) Temporary Clerk for 5 months for every 150,000 returns impacted by this legislation. Also (1) Tax Processing Tech I for five months for every additional 30,000 errors generated. Personal tax will also require (1) Tax Processing Tech 1 for every 3,000 pieces of correspondence received associated with this tax. The variation of surcharge rates could make this difficult in the development of the forms/instructions and system edits. Because not all school districts are authorized to collect, it may be difficult to properly enforce and/or edit, assuming DOR bases it on the school district number indicated by the taxpayer. This would make the surcharge a passive collection process. Based on the accounting and audit process, this could put DOR at risk in regards to collection and enforcement. The cost will depend on how it is handled.

Business Income Tax Bureau

In Section 162.1176, DOR is to keep accurate records of the money collected in each school district imposing a sales tax. If the split is to be based on point of sale, the Department would

ASSUMPTION (continued)

have to identify all businesses in a particular school district and code them accordingly. An employee will have to work with the districts to obtain and maintain lists. Business Tax will need (1) Tax Processing Tech I for Technical Support to work with the districts for identifying businesses, maintaining the registered businesses, and checking distribution.

Accounting Services

Both surcharges would require modification of programs. They would also require separate deposit tickets for the regular tax and the surcharge. In most cases one check will be sent for both taxes, which will require separate capture fields when adding the checks for deposit.

If a check is sent with an even return, a voucher may be required for depositing the check. This will require at least one additional Account Clerk II to process the deposit tickets.

Information Technology

Income Tax – A new field will be added to the MO-1040, MO-1040A and MO-1040B for reporting of the School district income Tax Surcharge Trust Fund. MINITS System changes, E-File; and PC Speedup will need to be modified. Depending on when the school district enacted this legislation the costs would be associated with that Fiscal Year. If the Department is to enhance the programs in anticipation of a school district imposing, the costs would be immediate. It is estimated that 1,204 hours of overtime programming are required at a cost of \$36,207.

The State Data Center implementation costs would be \$10,451, with ongoing annual costs of \$878.

Sales Tax – The sales tax is a county tax for school districts within a county. No impact is estimated on collecting the tax. Distribution is based on Student population requiring distribution-programming changes. It is estimated 519 hours of overtime programming will be needed at a cost \$15,606.

The State Data Center implementation costs would be \$3,378.

Officials from the **Department of Elementary and Secondary Education (DES)** state this proposal authorizes a school board to present to the voters an income tax surcharge. The board cannot impose these taxes without a majority vote of the voters on the ballot issue. DES assumes there is no cost to their agency since they are not involved in administering or overseeing the collection and distribution of these taxes. DES also states there would be an unknown increase to the General Revenue Fund, because the Department of Revenue is authorized to collect a 1% administration fee.

ASSUMPTION (continued)

Officials from the **Office of Administration - Budget and Planning (BAP)** state the anticipated revenues would be unknown because of the uncertainty of which school districts would be able to pass such measures in an election. They also state that the estimated revenue from Individual Income Tax for Missouri for FY 2002 is roughly \$4.4 billion, which would translate to \$223 million in revenue statewide for the school districts if all the school districts in the state passed a 5 percent income tax surcharge measure.

Officials from the Offices of the **Secretary of State (SOS)** and the **Attorney General (AGO)** assume this proposal would not fiscally impact their agencies.

Officials from the **State Auditor's Office (SAU)** assume this bill will have an unknown impact on General Revenue Funds. In addition, there would be a fiscal impact to the SAU to audit the monies collected, deposited and credited to the School District Income Tax Surcharge Trust Fund; and determine whether distribution of such funds is in compliance with state law. However, the impact is undeterminable since SAU does not currently have access to income tax returns.

Oversight assumes this proposal is permissive and would require voter approval before any positive fiscal impact would be realized by the state. Oversight presented the fiscal impact in a range of no voters passing such measures to all school districts in the state passing **both** the income tax surcharge and the sales tax measures. Oversight assumed a 4 percent growth rate in sales tax revenue from the FY02 projections for FY03 and FY04. Oversight assumed the Income Tax Surcharge, at the earliest, would be passed by the voters in October, 2001 and therefore, would not be effective until January 1, 2002, at which time employers would withhold from earnings and remit to the state. Oversight also assumed the Local Sales Tax, at the earliest, would be passed by voters in October, 2001, and therefore, would become effective April 1, 2002. With a month of lag time, only 2 months of revenue would be realized in FY 2002. Oversight also assumes the DOR would complete the programming changes related to the Local Sales Tax and the Income Tax Surcharge in FY 2002.

<u>FISCAL IMPACT - State Government</u>	FY 2002	FY 2003	FY 2004
	(6 Mo.)		
GENERAL REVENUE FUND			

<u>Income - Department of Revenue</u>			
1% collection fee from sales tax	\$0 to	\$0 to	\$0 to
at the local level	\$2,230,000	\$4,640,000	\$4,820,000

<u>FISCAL IMPACT - State Government</u>	FY 2002	FY 2003	FY 2004
(continued)	(6 Mo.)		

Income - Department of Revenue

1% collection fee from income	\$0 to	\$0 to	\$0 to
tax surcharge at the local level	\$1,058,583	\$6,605,560	\$6,869,782

Costs - Department of Revenue

Costs associated with collecting	(\$46,658) to		
and administering tax surcharge	(Unknown)	(Unknown)	(Unknown)

Costs - Department of Revenue

Costs associated with collecting			
and administering the local sales tax	(\$18,984)	\$0	\$0

**ESTIMATED NET EFFECT ON
GENERAL REVENUE FUND**

(\$65,642) to	(Unknown) to	(Unknown) to
<u>\$3,288,583</u>	<u>\$11,245,560</u>	<u>\$11,689,782</u>

FISCAL IMPACT - Local Government

FY 2002	FY 2003	FY 2004
(6 Mo.)		

LOCAL SCHOOL DISTRICTS

<u>Costs</u> - Election Costs	(Unknown)	(Unknown)	(Unknown)
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<u>Revenue</u> - Income Tax Surcharge	\$0 to	\$0 to	\$0 to
	\$223,000,000	\$464,000,000	\$482,000,000

<u>Revenue</u> - Local Sales Tax	\$0 to	\$0 to	\$0 to
	<u>\$105,858,333</u>	<u>\$660,556,000</u>	<u>\$686,978,240</u>

**ESTIMATED NET EFFECT TO
LOCAL SCHOOL DISTRICTS***

(Unknown) to	(Unknown) to	(Unknown) to
<u>\$328,858,333</u>	<u>\$1,124,556,000</u>	<u>\$1,168,978,240</u>

*Note: Voter approval at local elections of the Income Tax Surcharge and/or the Local Sales Tax measures must occur to realize the impact. For fiscal note purposes, Oversight presented the fiscal impact in a range of no school districts approving the measures to all school districts approving the measures at their legal extent.

FISCAL IMPACT - Small Business

Small businesses would be fiscally impacted to the extent they must keep track of and pay an additional income tax or sales tax.

DESCRIPTION

This bill allows school districts to adopt by voter approval a personal income tax, sales tax, or both. Moneys raised by the taxes would not be deducted from a district's state school aid. For either tax, the school district must specify the purpose of the tax and the period of time for which the tax will be imposed, not to exceed 3 years. The income tax is a 5 or 10% surcharge on state personal income tax. The sales tax may be up to one cent, in eighth-cent increments. The sales tax will be voted on by the school districts within a county and apportioned county. The bill contains technical provisions for the handling and transfer of funds and for the conduct of the elections.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Department of Elementary and Secondary Education
Office of Administration
 Budget and Planning
Secretary of State
Attorney General
State Auditor



Jeanne Jarrett, CPA
Director

March 27, 2001